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RUEAIIA/CIA WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEKDIA/DIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000996

SIPDIS

DEPT FOR EUR/CARC
DEPT FOR S/EEE AMB MORNINGSTAR AND DSTEIN
DEPT FOR EEB/ESC DAS DOUG HNGEL, AGREENSTEIN
DEPT FOR S/CT FOR GROBERTSON, KURSCH, CLARKS
DOE FOR LEKIMOFF, MBURPOE, AND DGTTFRIED

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TAGS: [ENRG](#) [EPET](#) [ECON](#) [PREL](#) [TU](#) [AJ](#)

SUBJECT: AZERBAIJAN: THE VIEW FROM BAKU ON THE
TURKMEN-CHINA PIPELINE

REF: A. BAKU 985

[1](#)B. ASHGABAT 1619

[1](#)C. ASHGABAT 1656

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Classified By: Charge d'Affaires Robert Garverick for
Reasons 1.4 (B,D, E)

Summary

[1](#)1. (C) Summary: The recent launching of the TransAsia gas pipeline from Turkmenistan to China made much press in the Caspian region, particularly here in Baku. Azerbaijan has no role in the project now, but pundits and others are wondering aloud about potential for exporting future gas east to China, rather than West, North or South, as previously discussed. SOCAR thus far has offered conflicting answers, with the latest response seeming to be no. Press and blog comments at times suggest otherwise. Russian press and EU officials' statements also indicate significant interest and concern about China and Central Asia. Meanwhile, there is more discussion of the potential of Iraqi gas to feed Turkey and Nabucco, and some suggestion of increased exports from Turkmenistan to Iran and/or Turkey. Embassy Baku assesses that SOCAR's public comments about China are more likely additional efforts to place pressure on Turkey to advance difficult gas negotiations than an expression of real interest in taking Azerbaijani gas eastwards. Nonetheless, Azerbaijan, which this week announced increased volumes of gas sales to Russia for 2010, continues to keep all doors open, and has its eyes on the clock. End Summary

SOCAR Considers Gas Exports to China;
Makes Deals Elsewhere

[1](#)2. (SBU) On November 20, Azerbaijani national oil company SOCAR President Rovnag Abdullayev made public statements that Azerbaijan must consider all routes to diversify its export routes. Although the statement was not altogether new and did not break with company policy, it was widely

re-interpreted, in the wake of the December 14 commissioning of the TransAsia pipeline, by the press and blogosphere to mean that Azerbaijan might explore possible participation, and a future export route to China. Since then, however, SOCAR has appeared to backtrack. SOCAR President Abdullayev was quoted last week saying that the pipeline "is not interesting to SOCAR because it does not meet the company's commercial interests." In an 18 December email to Energy Officer, Vice President Elshad Nassirov stated simply, "we don't have any intention to use it."

¶3. (SBU) Instead, SOCAR followed up in recent days with a new, short-term contract with Iran (ref a), supplying 100 million cubic meters over a 100-day period (1 mcm per day), and upped exports to Russia's North Caucasus for 2010 from 500 mcm to 1 bcm. These increased volumes of gas for Iran and Russia reportedly do not come from the Shah Deniz field, and therefore are not marketed by the Shah Deniz consortium; rather, SOCAR is selling its own, non-consortium gas to neighbors. Azerbaijan has not made arrangements with Turkmenistan for trans-Caspian transit of natural gas, east or west; the two countries remain in dispute on Caspian Sea delimitation.

"Will Exports to China
Scuttle the Southern Corridor?"

¶4. (SBU) In a 9 December piece published for the Central Asia Caucasus Institute, (and subsequently republished in some papers in the region), energy analyst Alexandros Peterson asked, "Will Azerbaijani Gas Exports to China Scuttle the Southern Corridor?" Peterson generally concluded no, noting that this would require a significant re-orientation of Baku's energy and foreign policy, as well

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as surmounting numerous technical and economic hurdles.

¶5. (SBU) Peterson nonetheless unearthed some interesting tidbits. He quoted SOCAR's Nassirov, stating, "If Europe takes too long putting together a solution, then all the gas in the Caspian will go to Asia. It's more serious than it seems." Peterson points out in his article that such Azerbaijani remarks are designed to put pressure on the Nabucco and other European pipeline consortia. At the same time, he expressed concern that SOCAR could be overplaying its hand. Noting an on-going re-orientation of Nabucco towards Iraqi, and possibly Egyptian gas, Peterson concluded "SOCAR has and should continue to have major leverage over the construction of Nabucco and the direction of the Southern Corridor, but time is not on Azerbaijan's side."

Regional News: Kremlin also Worried?

¶6. (SBU) Azerbaijan is not the only one thinking hard about the new pipeline. According to some Russian commentators, Moscow is in a tight spot. GazProm may be losing its stranglehold on Central Asian gas, and must rethink its approach to Central Asia natural gas producers. In an interview with the RIA Novosti widely published in Baku, Mikhail Krutikhin, a partner in Moscow's RusEnergy Consulting, explained that Turkmenistan's Western partners actively promoted Nabucco to Turkmenistan, Azerbaijan and Turkey, as an alternative to South Stream. In response, Gazprom offered Turkmenistan high prices for large volumes in an attempt to divert its gas from Nabucco. Later, however, as markets changed "Gazprom was compelled to stop the unprofitable acquisitions," Krutikhin indicated. "Turkmenistan interpreted that as a breach of contract and justifiably took offence."

¶7. (SBU) Krutikhin then explained the implications for Beijing. "China immediately grasped at the opportunity, as that country had been long pursuing a very measured and

determined policy in the region. China is taking its time, waiting for Central Asian gas suppliers to come of their own accord." Krutikhin assesses that the TransAsia pipeline, along with an existing oil pipeline, will considerably increase China's influence in Central Asia. Other commentators note that Moscow is much less concerned about Central Asian oil and gas sale to the East. The more pertinent objective is to protect market share in former Soviet states and Europe. Thus, as long as Turkmenistan's gas does not flow through non-Russian means to the West -- and, given that GazProm no longer relies on Turkmenistan to supply gas to Ukraine -- Moscow does not fret Turkmenistan's foray with Beijing.

EU Concerned as Well?

18. (SBU) On December 22, officials of the European Commission also expressed concern with gas supplies for Europe as a result of the new pipeline to China, according to the Baku press. In an interview with Itar-Tass, a Commission representative emphasized, "The European Union has clearly lost time to get access to Turkmen gas; China has outstripped us." Such press reports reinforce a view in the region that Brussels needs to speed up its energy outreach, or eventually will be forced to reconsider its overall stand towards other suppliers, mainly Iran.

Comment

19. (C) We assess that SOCAR's public comments about China are more likely the result of efforts to place additional pressure on Turkey in difficult gas negotiations than a real attempt to take Azerbaijani gas eastwards. Given Azerbaijan's desire for leverage over negotiating partners, mainly Turkey, and its lack of good alternatives, talk of the China pipeline may be a good course of action. China,

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likewise, doesn't come with the same political baggage as Russia or Iran. It is puzzling, though, that SOCAR is not pursuing a more consistent public relations policy in talking up the China option. This could be, perhaps, because of Azerbaijan's trouble history of relations with Turkmenistan, and the lack of any ongoing energy sector cooperation between the two sides. It could also be that Azerbaijan genuinely believes in Heydar Aliyev's westward re-orientation through energy exports. In any case, one point is clear: the commissioning of the Turkmen pipeline to China, constructed and commissioned before the Europeans have even managed to take Nabucco or the Italy-Turkey-Greece Interconnector (ITGI) to a final investment decision, has hit a nerve, and Baku may be beginning to realize that time, indeed, is not on its side. End comment.

GARVERICK